



EDITORIAL



Dear Readers,

The MFA is pleased to present you the 8th edition of our Newsletter. In this issue we will report on the first

results of the Microfinance Management Certificate Course and highlight a topic that is of concern to many in the sector: the rapidly increasing number of MFIs in Laos.

In the first article we take stock of the outcomes of the Certificate Course for MFI managers implemented since late 2015. The second article sheds some light on the evolution of the number of MFIs in Laos over the past few years and looks at the possible implications of these recent developments.

And last but not least, this issue informs you about the latest news from our members and from the MFA.

I would like to express my sincere thanks to all those who have contributed to this edition of our Newsletter and wish all our readers a happy, healthy and prosperous New Year.

Sincerely yours,

Pamouane Phetthany
MFA Executive Director

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UPCOMING EVENTS

- Microfinance Management Certificate Course batch 8, Feb - Mar 2017; batch 9, May – Jun 2017
- Training on MSME/FE, Feb - May 2017
- Training on Agri Finance, Mar 2017
- Sport event on International Women's Day with BoL & MFA+Members, Mar 2017
- Asia Pacific Financial Inclusion in Hanoi, Vietnam, Mar 2017



Certificate Course helps MFI leaders better manage their institution

In 2014 the MFA decided in partnership with bank of Laos to develop a Microfinance Certificate Course for managers of Lao MFIs (MFMCC) in order to fill a gap in terms of offering a formal and comprehensive training for microfinance practitioners.

The first batch of the course was launched in September 2015. Since then, 7 training batches have been carried out and a total of 167 participants have successfully completed the course. It's thus time to take stock of the results of this initiative and to assess whether it has met the initial expectations.

A comprehensive introduction into micro-finance for MFI managers

The purpose of the Certificate Course is to offer new and existing MFI managers a short and basic but comprehensive introduction into the micro-finance business, focusing primarily on the functions and responsibilities of the management level.

Moreover, the MFMCC aimed to contribute to increasing the pool of qualified and skillful micro-finance trainers. The course comprises 8 training modules and stretches over a total of 20 training days spread over 3 months.

91 MFI managers and BoD members trained

Through two Training of Trainer (ToT) courses conducted in the 2nd quarter of 2015, the MFA was able to train a total of 17 trainers. 11 of these were certified as qualified trainers under the MFMCC, the remaining 6 participants could be certified as co-trainers.

All in all, 170 persons participated in the 7 MFMCC batches carried out so far. Out of these, no less than 167 participants successfully completed the course and received their certificate. As can be seen in the below table, 91 of the 170 participants were managers / deputy managers or BoD members of MFIs, a further 41 were staff members of MFIs or SCUs.

Output of MFMCC in 2015 and 2016	
Trainers trained	17
Trainers certified	11
Co-trainers certified	6
MFI/SCU managers / deputy managers and BoD members trained	91
MFI/SCU officers trained	41
Participants from DTMFIs	33
Participants from NDTMFIs	81
Participants from SCUs	18
Other participants (BOL, Banking Institute MFA, PRF)	38
Total participants	170
Successful graduates	167

Useful takeaways for graduates

According to the participants' self-assessment and the outcomes of the final exams, the Certificate Course has improved trainees' expertise, capacities and skills in many ways.

With regard to **management capacities**, many MFI representatives indicated that they would now be able to assess their institutions performance and to develop a business plan for their MFI. In addition, they learnt new methodologies for their human resources management and will now be able to formulate adequate terms of reference for each position in their organization. It was also mentioned by managers that they had acquired the necessary know-how to draw up an operations handbook and credit manual.

As far as **technical expertise and skills** are concerned, participants stated, among other things, that they have learnt how to better calculate and interpret financial performance ratios. This will be very helpful in assessing their MFIs' financial performance and take corrective measures, if needed. Other trainees mentioned that they would now be better able to develop new products and to improve their loan management. Moreover, regarding social performance, participants underscored that they now knew the client protection principles.



Mushrooming of MFIs in Laos

Over the last few years, the number of MFIs in Laos has skyrocketed: Between 2012 and 2016, the total number of licensed and registered MFIs and SCUs almost doubled, from 54 to 102 institutions. While the expansion of the microfinance sector as such is certainly a welcome development, the high number of institutions in a small market also raises some concerns.

Dozens of new Non Deposit-Taking MFIs

Whereas the number of Deposit-Taking MFIs (DTMFIs) only increased from 13 to 17 between 2012 and 2016, the quantity of NDTMFIs virtually exploded during the same period: it almost tripled, rising from 21 to 57 institutions (see Table 1 below). In 2016 alone the Bank of Laos (BoL) registered 14 new NDTMFIs.

One of the reasons for this development is that it is much easier to establish a new NDTMFI than to obtain a license as a DTMFI or an SCU. One contributing factor is the low minimum capital requirement for NDTMFIs which is still kept at 200 million Kip (US\$25,000) by the regulator.

Table 1

Evolution of the number of MFIs / SCUs in Laos from 2012 to 2016					
	2012	2013	2014	2015	2016
DTMFIs	13	12	13	14	17
NDTMFIs	21	27	31	43	57
SCUs	20	21	23	32	28
Total	54	60	67	89	102

High fragmentation impedes critical mass

The above figures are a reflection of a highly fragmented sector. More than 100 MFIs and SCUs share in an aggregated loan portfolio of approximately US\$60 million which means that, on average, a Lao MFI has a loan portfolio of only roughly US\$600,000.

In the case of Lao NDTMFIs, owing to their large number, the average loan portfolio hovers around US\$200,000. Although this figure has increased since 2012 (see Table 2 below), due to the high number of newly registered institutions, it stagnated in 2015 and fell back to approximately US\$190,000 in 2016.

Table 2

Evolution of average loan portfolio of NDTMFIs		
Year	# of NDTMFIs	Avg Loan Portfolio (US\$)
2012	21	140'402
2013	27	195'073
2014	31	238'263
2015	43	243'189
2016	57	192'147

The high fragmentation of the sector makes it difficult for many MFIs to reach a critical mass of operations and income and to develop economies of scale which would reduce their costs per unit, thus giving them leeway for lowering interest rates.

The MFA's performance monitoring seems to confirm the assumption that there is a correlation between the size of an MFI and its efficiency and productivity. Indeed, according to the December 2015 figures of MFA's performance monitoring, the median NDTMFI had an operating expense ratio of 43%, as compared to the 32% of the much bigger median DTMFI. Likewise, regarding productivity, the NDTMFIs reporting to the MFA had only 46 loans outstanding per credit officer, while the same ratio amounted to 86 for DTMFIs.

High interest rates for clients and administrative burden for the regulator

Again according to the MFA's monitoring system, the (small) NDTMFIs have constantly had higher average or median interest rates than DTMFIs or SCUs. It is not clear, however, to what extent this is due to their lower efficiency and productivity and to what extent to their profit ratios, which have also typically been higher than for the other types of institutions. Whatever the main reason, clients of small MFIs in Laos seem to pay more for their loans than those of bigger institutions.

For the BoL, having to regulate and supervise more than 100 MFIs represents a heavy burden. Viewed from a technical perspective, although the regulator does not need to prudentially supervise the almost 60 NDTMFIs, their registration, administrative handling, processing of financial data etc. carries the risk of diverting scarce resources that could better be used for a professional prudential supervision of DTMFIs.



News from our Members

NDTMFI Oudomxay Development launched new product “Agri-finance”¹

Oudomxay Development Non Deposit-Taking Microfinance Institution, in partnership with the Fund for Inclusive Finance (FIF-MAFIPP) and the Provincial Agriculture & Forestry Office, has launched a new agricultural finance product. This product is part of the MFI’s efforts to provide agricultural clients access to quality financial services and technical support for sustainable agricultural production.

During a 1-year pilot period the project will focus only on those clients who grow organic vegetables and raise the traditional local pig. Loan sizes are between one and ten million Lao Kip (LAK), have a maturity of up to 12 months and carry a monthly interest of 2% on a declining balance basis.



Following the pilot program, customers will be able to develop their skills to produce quality agricultural products, commercialize these products on local markets, maintain a sustainable agricultural production and thus increase their incomes.



Financial product “Overdraft Loan” of DTMFI Sokxay popular among its clients



The “Overdraft Loan” or “OD Loan“, a product developed by the DTMFI Sokxay, has become very popular with customers who need a credit within 24 hours, i.e. a so-called “express loan”. The loan size depends on the needs of the client and the considerations of the credit committee. Express loans are granted for a period of 15 to 20 days and carry a 0,1% daily interest rate. The product benefits clients who are in need of quick liquidity to support their business operations. They can repay the loan in several installments based on their income stream.

DTMFI Champasak plans to expand its business in Southern provinces

Triggered by the excellent quality of its services, which is widely recognized by its members and the population at large, the Deposit-Taking Microfinance Institution Champasak has seen strong growth of its business over the past year. As of October 2016, the MFI held deposits of roughly LAK88 billion (approximately US\$10.7 million) and had a loan portfolio of more than LAK74 billion (US\$9 million). At present the MFI is planning to set up service units in the other Southern provinces of Xekong, Salavan and Attapeu as well as in other districts of Champasak Province.

¹ See more: www.laomfa.org



News from the MFA

MFA will support its members to get SMART Campaign certification

In 2014, with the support of the Smart Campaign, the MFA developed a code of conduct based on the Client Protection Principles. Subsequently, in February 2016, a Smart Campaign trainer delivered a two days training for MFA members focusing on the seven Client Protection Principles and the MFA Code of Conduct. The Smart Campaign urges MFIs to embed these principles in all their operations, and an institution should do everything in its power to protect its clients from harm; adapt its products and services to clients' needs; be transparent about its pricing; and measure its effectiveness in achieving desired client-level outcomes.² As a next step, the MFA will deliver trainings to its member MFIs on how to incorporate client protection initiatives into their operations and on actual practices among MFIs. In addition, it will support MFIs to improve their practices and thus help them to be certified, which would prove that they meet the required standards of care in regards to their clients.

Agri-finance, a new set of MFA services

In the upcoming year, the MFA will focus on assisting member MFIs to develop products and/or services to finance the agriculture sector by supporting them in the assessment and identification of investments in the agricultural market. The objective is to facilitate access to financial services for farmers and other actors in the agro-value chains in order to ensure the availability of resources required to produce under better conditions, to gradually increase the planting area, be connected to the market and be able to sell the products at the right time. The target group of this programme are those MFIs which provide services to the agriculture sector. In addition, the MFA plans to conduct a workshop on this subject during the first quarter of 2017.

Network Capacity Assessment of the MFA

During the 2nd week of December, a consultant from the SEEP network visited Laos to conduct

an external evaluation of the MFA. The assessment aimed to evaluate the capacity and performance of our network. This will be an important input to improve and strengthen our operations and services over the next few years.

MFA Membership increased to 92

Since July 2016, the MFA has had the pleasure to welcome 16 new members, which brings total membership up to 92. Out of the 16 newcomers, 13 are NDTMFIs and 3 SCUs³.

MFA to facilitate Financial Education training

In order to meet our objectives and to offer appropriate services to members, the MFA is committed to offering financial education to all members/clients. The MFA, in partnership with BoL and related MFIs and with the financial support of ADA and MAFIPP/FIF, is presently preparing a training on financial education for MFI clients. Previously, the MFA had organized 1 ToT course which was provided by the Lao company EDC. In addition, our trainers had attended the ToT, provided by the France-based "a+b=3 Learning Centre", which was supported and organized by Access to Finance for the Poor (AFP). In order to kickstart the borrower/member training on a pilot basis in 2017, the MFA has identified 8 potential MFIs: Oudomxay Development, Suaykan Phatthana, Xayniyom, Thavisok and Slermsouk (all NDTMFIs) as well as Phongsaly for Development, Patukham and Dokkhoun (DTMFIs).

MFA conducted SME trainings for MFI clients in Northern provinces

In October 2016, the MFA carried out 3 SME trainings for clients of 3 MFIs: NDTMFI Xayniyom and NDTMFI Oudomxay Development in Oudomxay province, and NDTMFI Suaykan Phatthana in Huaphanh province. This course was aimed at strengthening the business planning skills of small entrepreneurs who are MFI clients and at assisting the MFIs in broadening their customer base. The training was facilitated by a team of trainers from the MFA and member MFIs who had previously been certified. Overall, the 3 trainings were attended by 50 participants from various careers.

² For a detailed definition of responsible microfinance, see www.theglobalappeal.org/the-appeal/

³ NDTMFIs: Phayvanh, Phonemany, Xaythany, Sokxaychalernsap, Vivongsy, HPC, Valilak, Ali phatthana, Hongkham, Thepthidakhm,

Phanthavy, Panyaphone, Nyoththong; SCUs: Phaxay, Phoukoud District, Pakthone.



Useful Microfinance Websites:

- Banking With The Poor Network (BWTP):
www.bwtp.org
- Social Performance Task Force (SPTF):
www.sptf.info
- Consultative Group to Assist the Poor (CGAP):
www.cgap.org
- Microfinance Information Exchange (MIX):
www.mixmarket.org
- Microfinance Gateway:
www.microfinancegateway.org
- SEEP Network:
www.seepnetwork.org
- World Bank Data - Global Findex:
<http://datatopics.worldbank.org/financialinclusion/country/lao-pdr>
- Microfinance Transparency:
www.mftransparency.org



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